MERCER

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ACTUARIAL VALUATION REPORT
AS OF
JULY 1, 2008
FOR THE
RETIREMENT SYSTEM OF
SHELBY COUNTY, TENNESSEE

PREPARED BY:

MERCER

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November 2008

Consulting. Outsourcing. Investments.

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SHELBY COUNTY RETIREMENT SYSTEM
JULY 1, 2008

	Current Year	Prior Year	Increase
Actuarial Valuation Report	July 1, 2008	July 1, 2007	
Applicable Fiscal Year	July 1, 2009 to June 30, 2010	July 1, 2008 to June 30, 2009	
County Contribution Requirement	$17,430,216	$15,261,041	$2,169,175
Percent of Payroll	6.50%	5.91%	0.59%

SHELBY COUNTY RETIREMENT SYSTEM
JULY 1, 2008
SOURCES OF CHANGE IN CONTRIBUTION

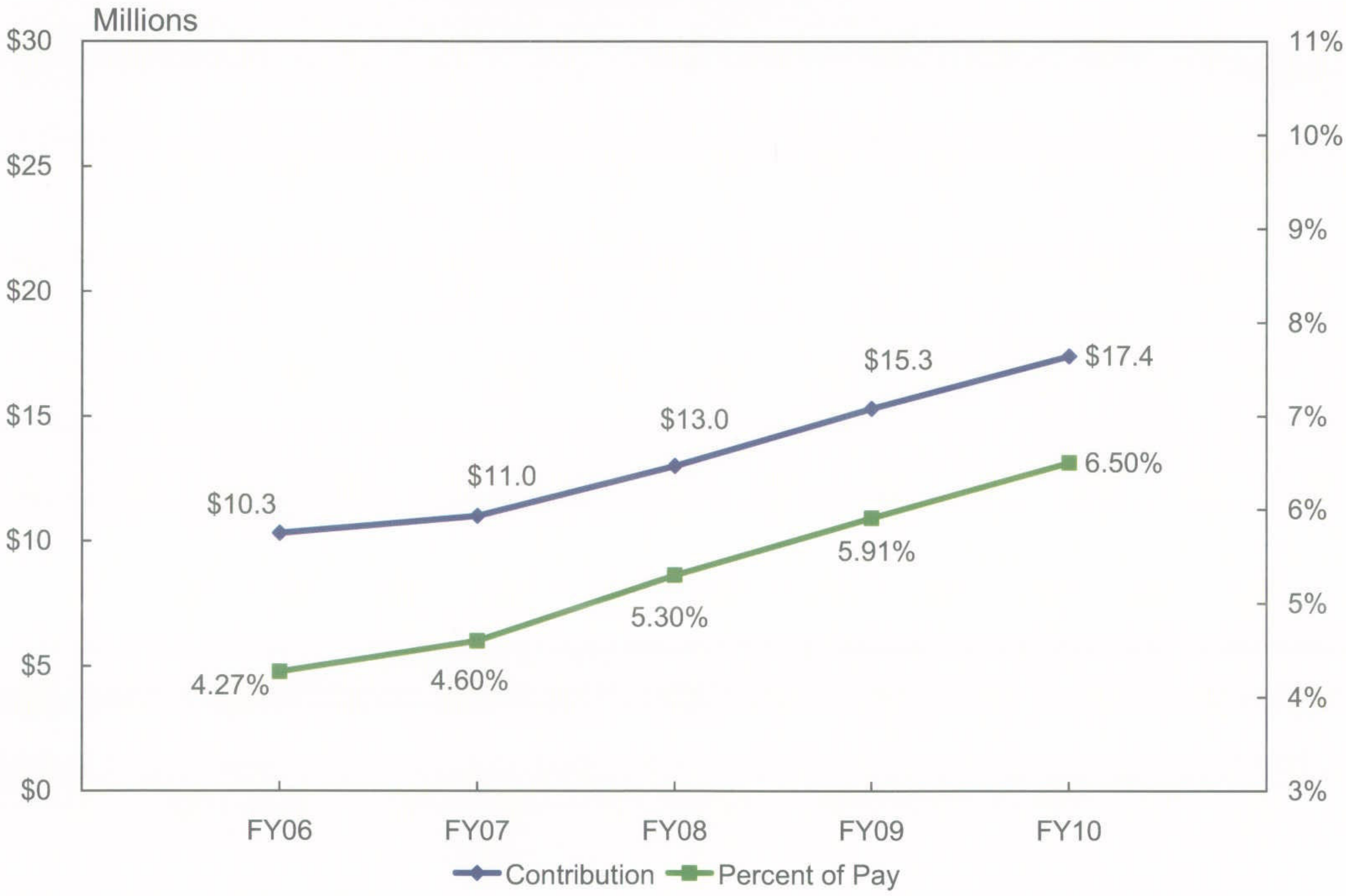
- Asset Return for funding calculations was 6.9% compared with 8.25% assumption
  - Market Value Return was (5.2%)
  - Asset Return for funding smoothes market value returns over 10 years
  - Asset performance increased annual contribution $1.6 million

- Salary Increases
  - Payroll increased 6.4% compared with 5.7%, which was expected for employees in the plan on July 1, 2007 and July 1, 2008
  - Total County payroll for active participants increased 4%
    - Includes impact of new hires who replace those who retire or leave
  - Salary experience decreased annual contribution $0.7 million
    - Higher increases for younger employees with short service had minimal effect on cost.

SHELBY COUNTY RETIREMENT SYSTEM
JULY 1, 2008
SOURCES OF CHANGE IN CONTRIBUTION (CONT'D)

- Demographic Experience
  - Number of active participants increased by 44 from prior year
  - There was less turnover and fewer retirements than expected
  - There were more deaths than expected
  - The Shelby County population is aging.
    - Average age increased from 45.6 to 46.0.
    - Average age of new hires is 39.
  - Increase in annual contribution due to demographic factors, such as aging, turnover, retirements, mortality, new hires and rehires was $1.3 million

Shelby County Retirement System Contribution Requirement

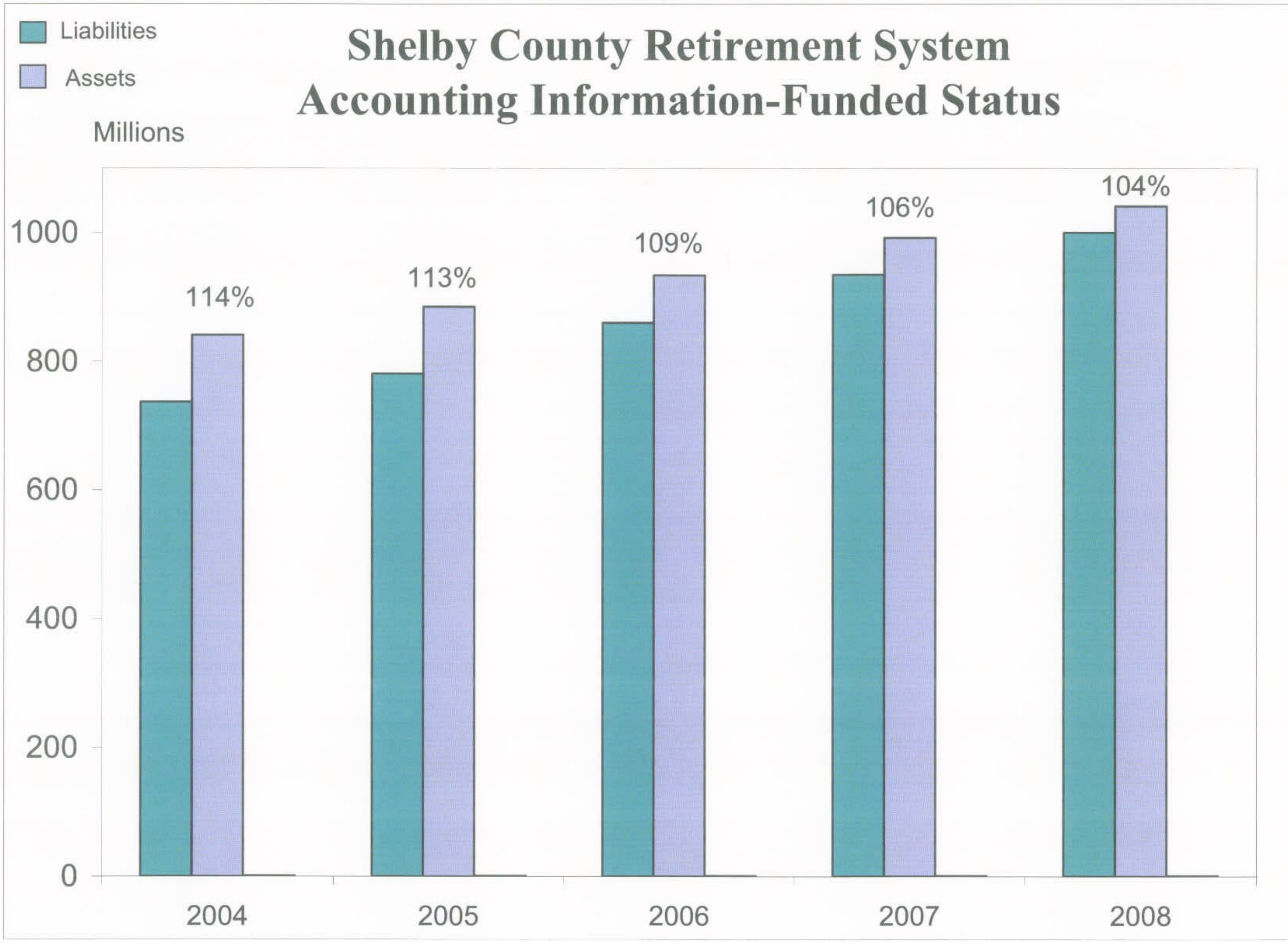


SHELBY COUNTY RETIREMENT SYSTEM
ACCOUNTING INFORMATION-FUNDING PROGRESS

	Current Year	Prior Year
	June 30, 2008	June 30, 2007
Assets*	$1,040M	$992M
Liabilities**	$1,000M	$935M
Funded Status	104%	106%

**Assets are based on asset smoothing method*

***Liabilities are estimated based on prior year employee data and prior year assumptions.*


Liabilities
Assets
Millions
Shelby County Retirement System
Accounting Information-Funded Status
1000
800
600
400
200
0
114%
113%
109%
106%
104%
2004
2005
2006
2007
2008

HIGHLIGHTS

This report has been prepared for the Shelby County Retirement Board to present the results of a valuation of the Retirement System of Shelby County, Tennessee as of July 1, 2008. The contents reflect generally accepted actuarial principles.

Section 1 of this report contains the results of the 2008 actuarial valuation. Plan B has been closed such that no employees will be permitted to enter the plan in the future and generally consists of the terms and provisions of the System as constituted on December 1, 1978. Plan A has been closed such that no employee will be permitted to enter the plan in the future and generally consists of the terms and provisions of the System as constituted on September 1, 2005.

The recommended contributions for Plan A, Plan B, and Plan C, together with the corresponding items from the immediately preceding valuation, are as follows:

	Contribution			
	July 1, 2008		July 1, 2007	
Plan	Percent of Pay	Dollar Amount	Percent of Pay	Dollar Amount
Shelby County Retirement System (Plan A, Plan B, and Plan C)	6.50%	$17,430,216	5.91%	$15,261,041

The County contribution strategy is to apply the results on a valuation date to the following fiscal year. The July 1, 2008 contribution amount of $17,430,216 will be the annual requirement contribution (ARC) for the fiscal year July 1, 2009 to June 30, 2010.

The dollar amount is the County cost. The percent of pay is based on expected current year payroll. Employee contributions are made in addition to this amount.

There were no changes in asset method or funding method from the prior year report.

There have been no changes in actuarial assumptions since the last valuation.

The contributions listed above apply to service retirement benefits only. Medical benefits are studied separately and funded separately.

HIGHLIGHTS (Continued)

The County contribution requirement increased from the prior year. Listed below is a chart comparing the costs as a percentage of payroll as well as an explanation of some of the factors which affected the contribution requirement.

		July 1, 2008	July 1, 2007
a.	Normal Cost for Benefits Earned During the Year	11.40%	10.86%
b.	Amortization of Plan C Liability	1.33%	1.38%
c.	Employee Contributions Expected	(3.46%)	(3.31%)
d.	Interest on a. + b. + c.	0.90%	0.86 %
e.	Ongoing Cost of Plan (a. + b. + c. +d.)	**10.17%**	**9.79%**
f.	Amortization of Surplus	(3.39%)	(3.58%)
g.	Interest on f.	(0.28%)	(0.30%)
h.	Total Suggested Minimum Contribution (e. + f. + g.)	**6.50%**	**5.91%**

Demographic Experience

The number of active participants increased from 6,472 on July 1, 2007 to 6,516 on July 1, 2008. The total County payroll increased approximately 4%. Demographic factors such as aging, turnover, retirements, mortality, new hires, and rehires increased the annual contribution $1.3 million.

HIGHLIGHTS (Continued)

Salary Increase Experience

There was a gain due to salary experience. Overall salary increases were more than expected. Salary increases averaged 6.4% while the expected salary increase was 5.7%. This experience decreased the annual contribution approximately $0.7 million due to the fact that younger, shorter service employees received higher salary increases which did not impact the liabilities significantly.

Asset Return Less Than Expected

The return on assets was less than the assumption of 8.25%. On an actuarial asset value basis, the investment return was approximately 6.9%, net of expenses. On a market value basis, there was an investment loss of approximately 5.2%, net of expenses. The effect of asset performance was an increase in annual contribution of $1.6 million.

Plan B COLA

A resolution was adopted to grant one-time cost of living bonuses in November 2007 to certain Plan B retirees. The total amount of the bonuses did not exceed $350,000. As a result, these payments decreased the asset value on June 30, 2008 and, therefore, lowered the surplus to amortize.

Accounting Information

Section 2 contains the Schedule of Funding Progress and Schedule of Employer Contributions which were reported as of June 30, 2008 for the financial statement of the Plan. The Plan is funded at 104% compared with 106% for the prior year.

Basis of Actuarial Valuation

Section 3 presents a summary of the plan provisions of Plan A, Plan B, and Plan C, as well as a description of the actuarial assumptions and the actuarial funding method.

Supportive Information

Section 4 provides payout projections, a summary of valuation data, and a yearly comparison of valuation results.

In preparing this report, generally accepted actuarial methods and practices have been used. Reliance has been placed on participant information and financial information provided by the County.

HIGHLIGHTS (Continued)

Please note that the undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion in this report, and are available to provide further information or answer any questions with respect to this report.

November 19, 2008
Date signed

Karen W. Buckner

Karen W. Buckner, A.S.A., M.A.A.A.
Enrolled Actuary No. 08-3742

November 19, 2008
Date signed

Stacy R. Franklin

Stacy R. Franklin, A.S.A., M.A.A.A.
Enrolled Actuary No. 08-7095

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

SECTION 1

SUMMARY OF VALUATION RESULTS

This section sets forth the results of the actuarial valuation.

SECTION 1.1 shows the transactions of the plan's fund during the year, the composition of the fund and the development of the Actuarial Asset Value.

SECTION 1.2 shows the development of the County Contribution Requirement.

SECTION 1.1

The Assets at June 30, 2008

<u>Allocation of Assets by Type</u>

Based upon information furnished by the County, the value of assets is summarized as follows:

Investments		
▪ Domestic Equity	$	415,698,225
▪ Fixed Income		167,715,980
▪ International Equity		159,350,930
▪ Hedge Funds		158,897,578
▪ Limited Partnership Interests		25,936,287
▪ Private Real Estate and Infrastructure		11,297,944
	$	938,896,744
Cash and Cash Equivalents		25,894,195
Receivables		
▪ Accrued interest and dividends		2,562,810
▪ Investments sold		8,112,187
Liabilities		
▪ Accounts payable and accrual expense		(1,110,671)
▪ Investments purchased		(1,853,101)
Market Value of Assets	**$**	**972,502,164**

Actuarial Asset Value	$	1,040,514,476
Actuarial Asset Value/Market Value		107.0%

Development of Actuarial Asset Value on July 1, 2008

The actuarial asset value was determined, as described in Section 3.4(F), using a 10-year smoothing method as follows:

Plan Year Ending June 30, 2008

1. Prior year market value of assets	$	1,045,216,961
2. Benefit payments		46,786,031
3. Contributions		27,674,311
4. Expected return (at 8.25%)		85,376,344
5. Expected market value of assets *(1. – 2. + 3. + 4.)*		1,111,481,585
6. Actual market value of assets	$	972,502,164
7. Gain/(Loss) *(6. – 5.)*	$	(138,979,421)

Schedule of Investment Gains/(Losses)

6-30	Expected Market Value at 8.25%	Actual Market Value	Actual Return	Asset Gain or (Loss)	Gain or (Loss) Percent	Deferred Amount
2008	$ 1,111,481,585	$ 972,502,164	(5.2%)	$(138,979,421)	90%	$ (125,081,479)
2007	955,359,554	1,045,216,961	18.4%	89,857,407	80%	71,885,926
2006	886,784,856	898,444,049	9.7%	11,659,193	70%	8,161,435
2005	843,547,225	835,341,291	7.2%	(8,205,934)	60%	(4,923,561)
2004	754,669,143	798,594,200	14.5%	43,925,057	50%	21,962,529
2003	730,140,073	714,167,666	5.9%	(15,972,407)	40%	(6,388,963)
2002	789,211,191	697,587,106	(4.2%)	(91,624,085)	30%	(27,487,226)
2001	758,546,652	746,918,030	6.6%	(11,628,622)	20%	(2,325,724)
2000	750,047,425	711,894,934	2.8%	(38,152,491)	10%	(3,815,249)
TOTAL			5.9% (average)	(159,121,303)		$ (68,012,312)

Current Market Value (A)	Total Deferral of Gains/(Losses) (B)	Actuarial Asset Value (A) – (B)
$972,502,164	$(68,012,312)	**$1,040,514,476**

Summary of Fund Operations

	Market Value	Actuarial Asset Value
Fund as of June 30, 2007	$ 1,045,216,961	$ 992,145,401
Contributions		
County	18,744,136	
Employee	8,930,175	
Total	27,674,311	27,674,311
Benefit Payments		
Refunds and Cashouts	(3,109,929)	
Retirement	(43,676,102)	
Total	(46,786,102)	(46,786,102)
Administration Expenses	(1,485,232)	(1,485,232)
Investment Return (Net of investment management expenses)	(52,117,845)	68,996,027
Fund as of June 30, 2008	$ 972,502,164	$ 1,040,514,476
Estimated Rate of Return (Net of Expenses)	(5.18%)	6.87%

SECTION 1.2

Development of County Contribution Requirement at July 1, 2008

1.	Actuarial Accrued Liability (AAL)	
	a. Plan B Actives and Transfers	$ 23,205,611
	b. Plan B Retireds, Beneficiaries, Disableds and Deferreds	233,906,331
	c. Total Plan B = (a.) + (b.)	$257,111,942
2.	Actuarial Accrued Liability (AAL)	
	a. Plan A Actives and Transfers	$220,566,394
	b. Plan A Retireds, Beneficiaries, Disableds and Deferreds	189,643,882
	c. Total Plan A= (a.) + (b.)	$410,210,276
3.	Actuarial Accrued Liability (AAL)	
	a. Plan C Actives and Transfers	$308,968,217
	b. Plan C Retireds, Beneficiaries, Disableds and Deferreds	16,731,486
	c. Total Plan C = (a.) + (b.)	$325,699,703
4.	Total AAL (1.) + (2.) + (3.)	$993,021,921
5.	Funding Target = 100% x AAL	$993,021,921
6.	Actuarial Asset Value	$1,040,514,476
7.	(Surplus) or Obligation	
	a. Remaining Obligation due to Plan C	$ 35,515,609
	b. Remaining (Surplus) or Obligation	(83,008,164)
	c. Net (Surplus) or Obligation = (5.) – (6.)	$(47,492,555)
8.	Amortization of (Surplus) or Obligation	
	a. Amortization of Obligation due to Plan C over 20 years from July 1, 2006	$ 3,561,714
	b. Amortization of Remaining (Surplus) over 15 years from July 1, 2008	(9,095,931)
	c. Total = (a.) + (b.)	$ (5,534,217)